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7 BEFORE THE OFFICE OF THE INSURANCE COMMISSIONER
8 OF THE STATE OF WASHINGTON

9 In the Matter of the Application regarding the
10 Conversion and Acquisition of Control of
11 Premera Blue Cross and its Affiliates.

No. G 02-45

PRE-FILED TESTIMONY OF SHAWN
CANTRELL

- 12
13 1. I am Shawn Cantrell, Executive Director of Washington Citizen Action (WCA). WCA is
14 a statewide, grassroots consumer organization with over 50,000 citizen members. WCA
15 is the largest consumer advocacy group in the state. WCA works on a range of public
16 policy issues, including a substantial focus on ensuring and expanding health care access
17 for consumers. WCA's board represents a broad range of constituencies including labor,
18 seniors, faith-based and community organizations.
- 19 2. The Premera Watch Coalition is formed of organizations concerned about the proposed
20 Premera conversion. Premera Watch Coalition members include: Children's Alliance,
21 Northwest Federation of Community Organizations, Northwest Health Law Advocates,
22 Service Employees International Union State Council, Spokane Alliance, Washington
23 Academy of Family Physicians, Washington Association of Churches, Washington
Association of Community & Migrant Health Centers, Washington Citizen Action,

PRE-FILED TESTIMONY OF SHAWN
CANTRELL -1

Columbia Legal Services
101 Yesler Way, Suite 300
Seattle, WA 98104
(206) 464-5933

1 Washington Protection and Advocacy System, Washington State NOW, Washington
2 State Nurses Association, and Welfare Rights Organizing Coalition.

- 3 3. WCA has a long history of working on health care conversion issues. WCA, along with
4 SEIU and the Washington State Hospital Association successfully lobbied for and passed
5 hospital conversion legislation in 1997. WCA also worked to ensure that the conversion
6 of PACC HMO in Portland, Oregon resulted in a foundation that also served Washington
7 residents in Southwest Washington. In 2000, WCA, along with community organizations
8 in Idaho, Oregon and Utah monitored Regence BlueShield's attempt to "affiliate."
9 4. When Premera announced its proposed conversion in May 2002 we knew we had to be
10 vigilant, so we joined with other community and consumer groups to review the proposal.
11 What we saw concerned us very deeply. To protect the interests of our members and the
12 public at large, we joined with several other organizations to form the Premera Watch
13 Coalition.
14 5. The essence of these principles is two-fold. First, health care is increasingly scarce and
15 the public should not be left worse off in the name of profit. Second, non-profit health
16 care assets should remain dedicated to unmet health care needs – and not be diverted to
17 serve the interests of for-profit companies or their directors or executives. Our reading of
18 Premera's conversion proposal indicated that both were real possibilities.
19 6. Based on these concerns, WCA intervened in this case in order to represent public and
20 consumer interests, and it also engaged in public education and information efforts
21 regarding the proposed conversion.
22 7. Health care access and consumer protection are key issues for our membership, and we
23 have an organizational responsibility to work actively on these issues. This conversion
would affect many of our 50,000 members directly as Premera enrollees, and, we believe,
the entire insurance-buying public based on Premera's market position. Many of WCA's
members have voiced their opposition to the conversion to the Insurance Commissioner

1 at the public hearings and via letters, postcards and email; to their communities through
2 letters to the editor, opinion pieces and other public correspondence; and to me as the
3 WCA director. Because of this impact on both our members and the general public, we
4 have intervened to ensure that consumers have a voice in this proceeding.

- 5 8. I have reviewed the independent expert reports produced for the OIC and the HPAP
6 health impact analysis, and have familiarized myself with the experiences of other states
7 where conversions have been approved, and those states where conversion applications
8 have been denied or withdrawn. I have also reviewed Premera's original application and
9 subsequent amendments and will review the supplemental reports as they become
10 available.
- 11 9. Based on the expert reports and our experience with health care access and conversion
12 issues, WCA believes the proposed Premera conversion would harm the public, and
13 therefore we oppose it. WCA believes that if the conversion were approved, consumers
14 would be harmed, premium rates would increase, and the numbers of uninsured people
15 would increase. Early on, WCA worried that the conversion would result in Premera
16 pulling out of less profitable but extremely important lines of business – such as publicly
17 funded programs like Medicaid and Basic Health, rural markets, and individual coverage
18 products. WCA has issued fact sheets, brief reports and other documents outlining its
19 concerns about the proposed conversion.
- 20 10. Our fears about Premera leaving these markets were realized, when, on March 2, 2004,
21 right after the OIC experts' supplemental reports were completed, Premera announced
22 that it would no longer participate in the state's Medicaid managed care program called
23 Healthy Options. It appears to WCA that Premera is leaving Medicaid in anticipation of
its IPO so it can demonstrate to potential shareholders that it puts profits ahead of serving
low-income people. WCA also opposes the conversion because non-profit health care is

1 a cornerstone of affordable access to insurance and a necessary part of health care
2 delivery.

3 11. The HPAP Health Impact Analysis resonates with the concerns of advocates examining
4 the effects of a conversion on public health. The report states in its conclusion: "If
5 Premera's request to convert to an investor-owned company is approved, residents of
6 Alaska and Washington can expect reduced access to health insurance, especially for
7 those in the individual market and people with greater medical need, and less spending on
8 health care (versus other expenses, such as administration and profit) by Premera as a
9 percentage of premiums." This market action is antithetical to Premera's historically
10 charitable mission and is obviously not in the public interest.

11 12. In addition, WCA, as a member of the Premera Watch Coalition, has endorsed a set of
12 principles that the Coalition as a whole decided must be in place in order for the public
13 interest to be protected in a conversion. These standards have clearly not been met:

14 A. Premera Blue Cross should guarantee that there will be no negative impact on
15 current and prospective enrollees during the first 6 years after the conversion by assuring
16 that:

- 17 ☐ Premiums will not increase by more than medical inflation;
- 18 ☐ Premera's current service area will continue to be served by the new for profit
19 entity;
- 20 ☐ Premera will not reduce or limit the benefit packages offered to current members,
21 subscribers and enrollees;
- 22 ☐ Premera will assure the OIC and AG that there will be no negative impact on
23 current members;
- ☐ Premera will maintain its current medical loss ratio.

1 B. Premera Blue Cross Board members, executives and other employees should not
2 profit from the conversion. Board member and employee severance packages, "golden
3 parachutes," signing bonuses, stock options and other forms of excessive compensation
4 should be prohibited as part of the conversion. Premera Blue Cross board members and
5 employees should only receive normal salary and merit increases based on market based
6 salary reviews, either as part of the conversion transaction, or within six years of the
7 conversion transaction.

8 C. Premera Blue Cross should be required to transfer 100% of its assets to a
9 charitable health care foundation or foundations. Premera Blue Cross should be valued,
10 separately from any initial public offering, in order to ensure that the full value of its
11 assets are transferred. The transfer of stock, burdened by multiple restrictions on its use
12 and sale, does not capture the full value of Premera. The valuation should include the
13 value of the company's goodwill, trademark, provider and consumer contracts, other
14 equity, and compensation to the foundation or foundations for the value of any
15 restrictions related to the voting and sale of stock placed upon the foundations by
16 Premera.

17 D. If the conversion results in a transfer of stock to a nonprofit shareholding
18 foundation, that foundation should be completely independent from Premera. Premera
19 Blue Cross should be prohibited from writing the Articles of Incorporation or bylaws for
20 the shareholding foundation, choosing any board members, requiring or forbidding
21 certain grant-making or other activities, or "branding" the foundations with its corporate
22 name or logo. The shareholding foundation should be prohibited from lobbying on
23 behalf of health insurer interests, or conducting any activities other than to sell the stock
and transfer the proceeds to the designated Washington and Alaska charitable

1 foundations. The shareholding foundation should not be permitted to control the grant-
2 making purposes, articles of incorporation or bylaws of the two designated charitable
3 foundations.

4 E. The nonprofit charitable foundations created as a result of the conversion should
5 be completely independent from Premera Blue Cross. Premera Blue Cross should be
6 prohibited from writing the Articles of Incorporation or bylaws for the foundations,
7 choosing any board members, requiring or forbidding certain grantmaking or other
8 activities, or “branding” the foundations with its corporate name or logo. All foundations
9 formed by the Premera Blue Cross transaction, including a shareholding foundation,
10 should be governed by Board that provides broad community representation and is
11 completely independent from Premera Blue Cross.

12 F. The Foundations should be dedicated to addressing unmet health care needs in
13 Washington and Alaska. The Foundations should be incorporated as IRC 501(c)(3)
14 foundations and must adhere to the key requirements of an IRC 501(c)(3) foundations,
15 such as prohibitions against self-dealing, private inurement, excessive lobbying, and
16 minimum annual grantmaking.

17 13. Fortunately, this proposed conversion will be judged based, in part, upon a determination
18 of whether the transaction is in the public interest. This standard has not been met.
19 Premera’s proposal is not in the public interest and the Commissioner should protect
20 consumers and non-profit health care in the state of Washington by denying Premera
21 Blue Cross’ application for conversion.
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1 I declare under penalty of perjury of the laws of the State of Washington that the
2 foregoing is true and correct.

3 Dated this ___ day of March 2004, in Seattle, Washington
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7 SHAWN P. CANTRELL
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1 I declare under penalty of perjury of the laws of the State of Washington that the
2 foregoing is true and correct.

3 Dated this 30th day of March 2004, in Seattle, Washington
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7 SHAWN P. CANTRELL
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